

EXHIBIT F



GOVERNOR OF PUERTO RICO

Ricardo Rosselló Nevares

August 4, 2017

P2
The President
The White House
1600 Pennsylvania Avenue, Northwest
Washington, DC 20500

The Majority Leader of the Senate
United States Capitol
Washington, DC 20515

The Speaker of the House of Representatives
United States Capitol
Washington, DC 20515

Re: Explanation for Government of Puerto Rico's Rejection of Financial Oversight Board's Furlough Program Recommendation Made Pursuant to Section 205(a) of the Puerto Rico Oversight, Management, and Economic Stability Act

Dear Mr. President, Mr. Majority Leader, and Mr. Speaker:

I am submitting this letter pursuant to section 205(b) of the *Puerto Rico Oversight, Management, and Economic Stability Act* ("PROMESA"), in response to the recommendation of the Financial Oversight and Management Board for Puerto Rico (the "Board") that the Government of Puerto Rico (the "Government") implement a Furlough Program (as defined below) that would impact approximately 138,000 government employees. Today, August 4, 2017, the Board passed a Resolution adopting the Furlough Program (the "Board Recommendation") and attempting to impose the Furlough Program on the Government beginning September 1, 2017. The Government has notified the Board, in accordance with PROMESA section 205(b)(1), that it disagrees with the Board Recommendation.¹

¹ PROMESA § 205(b)(1) provides that "In the case of any recommendations submitted under subsection (a) that are within the authority of the territorial government to adopt, not later than 90 days after receiving the recommendations, the Governor or the Legislature (whichever has authority to adopt the recommendation) shall

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

Set forth below is a statement explaining the Government's decision to reject the Board Recommendation.²

I. Background

On June 30, 2016, PROMESA was signed into law. In enacting PROMESA, Congress found that “[a] combination of severe economic decline, and, at times, accumulated operating deficits, lack of financial transparency, management inefficiencies, and excessive borrowing has created a fiscal emergency in Puerto Rico.”³ The current fiscal emergency threatens the Government's ability to provide its citizens with essential services and “has also affected the long-term economic stability of Puerto Rico by contributing to accelerated outmigration of residents and businesses.”⁴ Accordingly, PROMESA was enacted to provide a “comprehensive approach to fiscal, management, and structural problems.”⁵

In order to better understand the nature of the fiscal emergency facing Puerto Rico, Congress established a Congressional Task Force on Economic Growth in Puerto Rico (the “Task Force”).⁶ On December 20, 2016, the Task Force issued a Report to the House and Senate finding that a deep history of significant economic, financial, and social challenges has led to the current crisis.⁷ The Task Force emphasized that the current challenges facing Puerto Rico “are enduring, not transitory.”⁸

PROMESA also established the Board to provide independent oversight and work with the Government to achieve fiscal responsibility and access to the capital markets.⁹ On August 31, 2016, President Obama appointed seven members of the

submit a statement to the Oversight Board that provide notice as to whether the territorial government will adopt the recommendations.”

² PROMESA § 205(b)(3) provides that “If the Governor or the Legislature (whichever is applicable) notifies the Oversight Board under paragraph (1) that the territorial government will not adopt any recommendation submitted under subsection (a) that the territorial government has authority to adopt, the Governor or the Legislature shall include in the statement explanations for the rejection of the recommendations, and the Governor or the Legislature shall submit such statement of explanations to the President and Congress.”

³ PROMESA § 405(m)(1).

⁴ PROMESA § 405(m)(2) and (3).

⁵ PROMESA § 405(m)(4).

⁶ PROMESA § 409(a).

⁷ Congressional Task Force on Economic Growth in Puerto Rico, Report to the House and Senate at 7 (Dec. 12, 2016).

⁸ *Id.*

⁹ PROMESA §§ 101(b)(1), 405(m).

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

Board. PROMESA requires the Governor to put forward a fiscal plan to provide a foundation for the Government's budgets and efforts to restructure the Government's obligations.¹⁰ The Board then, in its sole discretion, reviews the proposed fiscal plan and determines whether it satisfies the requirements of PROMESA.¹¹

42
II. Significant Progress Towards Achieving Fiscal Responsibility

In the middle of a fiscal emergency of unprecedented severity this administration was sworn into office in the early hours of January 2, 2017. After the prior administration failed for six months to put forward an acceptable fiscal plan, within fifty-seven days after taking office we submitted a fiscal plan that was certified by the Board on March 13, 2017 (as subsequently amended, the "Fiscal Plan"). During the last six months much progress has been made to ensure that the Government complies with the revenue enhancement and expenditure control measures in the Fiscal Plan, including significant efforts to right size the Government.

The Government has enacted significant structural reform measures that (i) dismantle structural barriers to fiscal reform; (ii) empower a single government agency with the necessary legal authority to implement fiscal and structural reform across all governmental units; (iii) institute emergency powers giving wide latitude to the Governor to effectuate necessary fiscal policy; (iv) reduce excessive governmental regulation that hampers economic development; and (v) enhance the economic competitiveness of Puerto Rico. Meaningful reform of the Government's operations will not be possible absent these legal and regulatory structural reforms that are directed at removing the historical impediments that have caused many prior efforts at reform to fail.

The structural reforms put into place by the Government established a framework that allowed for timely approval of the first balanced budget in the history of Puerto Rico. The Government and Board have worked in cooperation to propose and approve a budget for Fiscal Year 2018 (the "Budget"). The baseline assumptions and forecasts in the Fiscal Plan work hand-in-hand with the Budget. It is for this reason that under PROMESA a budget cannot be proposed until a fiscal plan has been certified by the Board.¹² With the Fiscal Plan as the foundation of the Government's finances, the Budget represents the implementation of necessary controls over expenditures and revenues in order to ensure compliance with the Fiscal Plan.

¹⁰ PROMESA § 202.

¹¹ *Id.*

¹² PROMESA § 202(c).

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

42
In addition to the measures provided for in the Fiscal Plan and Budget, the Government has taken significant actions over the last six months, beyond those required by PROMESA and the Board, directed at enhancing revenue and controlling expenditures through Government right sizing.¹³ These significant revenue enhancement and expenditure control measures have resulted in over \$200 million in savings to the Government.

The Government and the Board have also worked together to prepare and initiate cases under Title III of PROMESA for the Commonwealth of Puerto Rico, the Puerto Rico Highways and Transportation Authority, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico, the Puerto Rico Sales Tax Financing Corporation, and the Puerto Rico Electric Power Authority (collectively, the "Title III Cases"). The first of the Title III Cases were commenced on May 3, 2017. In accordance with PROMESA, Chief Justice John Roberts appointed United States District Judge Laura Taylor Swain to preside over the Title III Cases. In order to bring the Title III Cases to a swift conclusion, Judge Swain appointed a mediation panel consisting of five distinguished sitting federal judges.¹⁴ The Board, the Government, and all major creditor consistencies have agreed to participate in mediation.

¹³ These actions include: (i) directing government agencies to cut their total fiscal year 2017 budgets by 10% from January to June 2017 pursuant to Executive Order 2017-001; (ii) creating a Center for Federal Opportunities within the Governor's office to provide consulting services to agencies and NGOs to better take advantage of federal funding opportunities pursuant to Executive Order 2017-002; (iii) declaring an infrastructure state of emergency and providing an expedited process for approval and implementation of critical infrastructure projects pursuant to Executive Order 2017-003; (iv) creating an interagency group to coordinate work by various agencies to streamline permitting and regulatory approvals for critical infrastructure projects pursuant to Executive Order 2017-004; (v) establishing a public policy requirement that government agencies have zero-based budgets starting in fiscal year 2018 pursuant to Executive Order 2017-005; (vi) ordering additional budget cuts of 5% in all Government acquisitions, pursuant to Executive Order 2017-009; (vii) enacting Law 3-2017, which allows for taking immediate emergency and cost cutting measures to reduce the Government's operating expenses; (viii) enacting the Puerto Rico Financial Emergency and Fiscal Responsibility Act (Act 5-2017), which amended the prior Act 21-2016 to prioritize essential services over debt payments and extended the emergency period for revenue clawbacks to August 1, 2017 pursuant to Executive Order 2017-3 1; (ix) directing executive branch agencies to submit reports detailing steps taken and savings achieved under fiscal control orders pursuant to AAFAF Administrative Order 2017-02; (x) authorizing AAFAF, the OMB, and the Treasury Department to supervise the implementation of the budget control measures, pursuant to Executive Order 2017-033; (xi) enacting Law 8-2017, which allows for the transfer of workers across the Government to save \$ 100 million through mobility and attrition; (xii) enacting Law 20-2017, which consolidates law enforcement and other public safety agencies under a Public Safety Department, saving \$25 million; (xiii) enacting Law 25-2017, which provides measures for enforcing collection of sales taxes on internet transactions to generate \$35 million to \$55 million in new revenue; and (xiv) enacting Law 26-2017, which levels out marginal benefits across the Government and its instrumentalities to generate \$130 million in savings, increase revenues, and expedite the process of asset disposition.

¹⁴ Order Appointing Mediation Team, No. 17 BK 3283-LTS (June 23, 2017) (Dkt. No. 430). The court appointed mediation team includes: Chief Judge Barbara J. Houser of the United States Bankruptcy Court, Northern District of Texas (Mediation Team Leader); Judge Thomas Ambro of the United States Court of Appeals, Third Circuit;

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

After extensive negotiations with creditors, the Government has also entered into a restructuring support agreement with the creditors of the Government Development Bank for Puerto Rico ("GDB"). The Board certified the agreement and authorized the Government to commence solicitation of GDB's creditors for approval.

The record of the Government and Board over the past six months speaks for itself. Despite the historical experience of Puerto Rico, the actions taken by this Government demonstrate that there is the political will necessary to make difficult, and at times painful, policy decisions. The Government and Board have succeed in overcoming differences in approach and opinion to certify the Fiscal Plan, approve the Budget, and advance efforts to adjust the obligations of the Government and its instrumentalities through court supervised Title III cases and out-of-court restructuring. At this historical juncture, the Government and the Board have achieved agreement on the vast majority of the proposed revenue enhancement and cost control measures included in the Fiscal Plan and Budget.

III. Proposed Furlough Program

It is against this backdrop of cooperation and significant progress that the Board has taken action to impose a furlough program. The Fiscal Plan requires that the Government achieve \$440 million in cost savings through government right-sizing measures in Fiscal Year 2018. When the Board certified the Fiscal Plan on March 13, 2017, it made certain reservations intended to ensure sufficient liquidity upon future completion of the budgeting process in June 2017 to pay for essential services in the event that the Government's implementation plan for its right-sizing measures failed to generate the expected cost savings.¹⁵ These reservations are not part of the Fiscal Plan, but rather were supplement contingent recommendations proposed by the Board in the event cost saving targets set by the Board were not made.

Among the recommendations included in the reservations was a furlough program that would affect approximately 138,000 government employees (the "Furlough Program").¹⁶ The recommended Furlough Program would require that each employee be furloughed two days out of each month for nine consecutive months. The Board estimates that the cost savings realized by the Furlough

Judge Nancy Friedman Atlas of the United States District Court, Southern District of Texas; Christopher M. Klein of the United States Bankruptcy Court, Eastern District of California; and Judge Victor Marrero of the United States District Court, Southern District of New York.

¹⁵ Board Resolution Adopted on March 13, 2017 (Fiscal Plan Certification) at 2.

¹⁶ *Id.*

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

Program would result in an approximately \$218 million for Fiscal Year 2018. The economic impact on each employee would be significant, reducing monthly salaries by 6.7%.

Despite the fact that the recommended furlough program could not be addressed or considered by the Government until the budgetary process was completed, José Carrión III, Chairman of the Board, sent a letter to the Governor, the President of the Senate of Puerto Rico, and the Speaker of the House of Representatives of Puerto Rico, dated June 16, 2017, asserting that the Government has not adequately implemented necessary right-sizing measures.

For the reasons discussed below, the Government disagrees with the Board's assessment regarding the necessity of the Furlough Program identified by the Board as a recommended "right-sizing measure."

IV. Furloughs are Unnecessary and Counterproductive

P²
In March 2017, the Board, in certifying the Fiscal Plan, could not have assessed the economic impact of the proposed furlough program without the benefit of evaluating the Budget which was yet to be developed and submitted to the Board. Through the approved Budget and other measures detailed above, the Government has achieved sufficient cost savings. Accordingly, the Board Recommendation, which the Government acknowledges may have been an appropriate contingency in March, is no longer necessary in light of the significant progress made by the Government and Board in the last six months.

"At present, the Government's liquid cash position is approximately \$1.8 billion at end of Fiscal Year 2017, as compared to the forecasted amount of \$291 million. In light of Puerto Rico's improved liquidity position, and the significant revenue enhancement measures and expenditure controls implemented by this administration, the Government believes that imposition of the Board Recommendations are unnecessary and, at best, premature until the Government is allowed time to implement its proposed right-sizing measures. Taken together, the liquidity provisions and current right-sizing measures will enable the Government to realize sufficient cost savings for Fiscal Year 2018, as necessary to comply with the Fiscal Plan."

Implementing the Board Recommendation is not only unnecessary to achieve compliance with the Fiscal Plan, the Government strongly believes that the proposed furloughs could significantly depress macro-economic growth, which is an important cornerstone of the Fiscal Plan. The substantial risk of negative effects on economic growth far outweigh any additional cost savings. In the Government's view, the Board Recommendation carries with it the significant threat of triggering

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

a substantial drag on Puerto Rico's economy, which could quickly spiral out of control. Indeed, the proposed Furlough Program will lead to the opposite result of what is required under PROMESA section 205(a): *"to ensure compliance with the Fiscal Plan or to otherwise promote the financial stability, economic growth, management responsibility, and service delivery efficiency of the territorial government."* (emphasis added).

The Board Recommendation would have a negative short- and medium-term impact on economic growth, and could also undermine Puerto Rico's long-term prospects for economic growth. For example, under the recommended Furlough Program, government employees would be trapped in a temporary partial employment status where they are not fully employed, nor are they forced to find new employment. In such a scenario, the economy does not adjust. Instead, furloughs run the risk of reducing labor productivity, as well as delaying other labor market reforms that are critical to improve economic growth.

73 An analysis conducted by the Government indicates that if furloughs are imposed in addition to other right-sizing measures, Puerto Rico will experience an approximately 0.5% reduction in gross national product ("GNP") over the short-term (through fiscal year 2019). The Government's analysis suggests that it would be counterproductive to impose furloughs at this time. And in the event furloughs are implemented, duplicative right-sizing measures should be avoided. Rather than pursue a narrowly tailored approach aimed at reducing the negative economic consequences attendant to the Furlough Program, the Board insists on arbitrarily imposing this regressive measure, which would place a significant burden on public employees, on top of the other right-sizing measures being implemented by the Government. The Board's approach would significantly increase the likelihood of negative consequences to economic growth.

Accordingly, the Government rejects the Board Recommendation at this time because the risk posed to future economic growth, which is a key assumption of the Fiscal Plan, is too great. This is especially true when considering the more tailored right-sizing measures the Government is implementing, which are expected to result in similar savings with diminished, if any, negative economic impact.

In order to further assess the merits of such a drastic measure, the Government requests that the Furlough Program be put on hold for six months to allow for the Government right-sizing measures to be implemented and properly assessed. At that time, the Government and Board will have a clearer view of the necessity of further right-sizing measures and more insight into the potential negative impact of any furloughs.

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

2
a substantial drag on Puerto Rico's economy, which could quickly spiral out of control. Indeed, the proposed Furlough Program will lead to the opposite result of what is required under PROMESA section 205(a): *"to ensure compliance with the Fiscal Plan or to otherwise promote the financial stability, economic growth, management responsibility, and service delivery efficiency of the territorial government."* (emphasis added).

The Board Recommendation would have a negative short- and medium-term impact on economic growth, and could also undermine Puerto Rico's long-term prospects for economic growth. For example, under the recommended Furlough Program, government employees would be trapped in a temporary partial employment status where they are not fully employed, nor are they forced to find new employment. In such a scenario, the economy does not adjust. Instead, furloughs run the risk of reducing labor productivity, as well as delaying other labor market reforms that are critical to improve economic growth.

An analysis conducted by the Government indicates that if furloughs are imposed in addition to other right-sizing measures, Puerto Rico will experience an approximately 0.5% reduction in gross national product ("GNP") over the short-term (through fiscal year 2019). The Government's analysis suggests that it would be counterproductive to impose furloughs at this time. And in the event furloughs are implemented, duplicative right-sizing measures should be avoided. Rather than pursue a narrowly tailored approach aimed at reducing the negative economic consequences attendant to the Furlough Program, the Board insists on arbitrarily imposing this regressive measure, which would place a significant burden on public employees, on top of the other right-sizing measures being implemented by the Government. The Board's approach would significantly increase the likelihood of negative consequences to economic growth.

Accordingly, the Government rejects the Board Recommendation at this time because the risk posed to future economic growth, which is a key assumption of the Fiscal Plan, is too great. This is especially true when considering the more tailored right-sizing measures the Government is implementing, which are expected to result in similar savings with diminished, if any, negative economic impact.

In order to further assess the merits of such a drastic measure, the Government requests that the Furlough Program be put on hold for six months to allow for the Government right-sizing measures to be implemented and properly assessed. At that time, the Government and Board will have a clearer view of the necessity of further right-sizing measures and more insight into the potential negative impact of any furloughs.

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

V. The Government's Assessment of Furlough Program Falls Within Its Political Authority

While the Board has the authority to propose certain appropriate recommendations to the Government with respect to the Fiscal Plan, it cannot interfere with the Government's policy making authority to take steps to ensure compliance with the Budget and Fiscal Plan. In that regard, the Government has sole authority to take action to carry out policy as approved in the Budget.

In certifying the Fiscal Plan, the Board found that it satisfied each of the fourteen requirements set forth under PROMESA section 201(b)(1). One of these requirements is that a certifiable fiscal plan must "adopt *appropriate* recommendations submitted by the Oversight Board under [PROMESA] section 205(a)."¹⁷

PROMESA section 205(a) provides that the Oversight Board may "submit recommendations to the Governor or the Legislature on actions the territorial government may take to ensure compliance with the Fiscal Plan" These recommendations, which are subject to the Government's self-determination, may include, among other things:

- "the management of the territorial government's financial affairs, including . . . placing controls on expenditures for personnel, reducing benefit costs . . . and placing other controls on expenditures";¹⁸
- "the establishment of alternatives for meeting obligations to pay for the pensions of territorial government employees";¹⁹
- "the establishment of a personnel system for employees of the territorial government that is based upon employee performance standards";²⁰ and
- "the adjustment of staffing levels"²¹

PROMESA section 205 is intended to give the Government sole discretion whether or not to adopt the Board's recommendations. As noted in PROMESA's legislative history, "[PROMESA] section 205 [was] substantially improved from the March 29th discussion draft" by removing "the anti-democratic provision empowering the oversight board to impose its recommendations over the objection

¹⁷ PROMESA § 201(b)(1)(K).

¹⁸ PROMESA § 205(a)(1).

¹⁹ PROMESA § 205(a)(4).

²⁰ PROMESA § 205(a)(8).

²¹ PROMESA § 205(a)(9).

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

of the Puerto Rico government.”²² Although, “[PROMESA] section 201 does require the fiscal plan put forward by the Puerto Rico governor to ‘adopt appropriate recommendations’ submitted by the oversight board under [PROMESA] section 205, . . . the term ‘appropriate’ provides the governor with significant flexibility to adopt sound recommendations and to decline to adopt unsound recommendations.”²³ The purpose of this change was to ensure that the Government and Board “work together for the benefit of the people of Puerto Rico, [and] not to have parallel governing structures.”²⁴

As recognized by PROMESA section 205, the Government, in the exercise of its political and governmental powers, is the party charged with establishing and implementing public policy for Puerto Rico. The Government must make the difficult public policy decisions regarding where cuts and adjustments should be made within the Budget to achieve compliance with the Fiscal Plan. In making those decisions, the Government is within its authority to implement certain right-sizing measures and reject others, provided that such measures ultimately ensure compliance with the Fiscal Plan and Budget.

PROMESA envisions both the Government and the Board working in partnership to address the fiscal emergency facing Puerto Rico through a systematic approach aimed at achieving fiscal responsibility and access to capital markets. However, while the Board is to provide “a method for [Puerto Rico] to achieve” the purposes of PROMESA and oversight with respect to implementation, the difficult public policy decisions regarding the means of achieving those purposes are left to the Government.

VI. Conclusion

Please be assured that although the Government strongly believes the Board Recommendation is inappropriate at this time, it remains committed to working with the Board to achieve financial stability and economic growth, in part, through appropriate right-sizing measures. The Government has maintained an exceptionally cooperative and close working relationship with the Board. Together with the Board, the Government has been able to achieve many notable accomplishments over the course of the last six months. The Government desires to maintain that cooperative relationship and strongly believes that its ability to work closely and productively with the Board is the key to ensuring that the progress made to date will be preserved and additional progress will be made going forward. In the spirit of continued cooperation and dialogue, the Government remains open

²² H.R. Rep. 114-602(I), 2016 WL 3124840, at *114.

²³ *Id.*

²⁴ *Id.*

RICARDO ROSSELLÓ NEVARES
GOVERNOR

OFFICE OF THE GOVERNOR
LA FORTALEZA

to discussing, within the mediation process or otherwise, additional right-sizing measures as maybe required to ensure continued budgetary compliance during the Fiscal Plan period.

* * *

Mr. President, Mr. Majority Leader, and Mr. Speaker, I am available together with the members of my staff to provide any additional information or answer any questions as deemed necessary by you and your respective staffs. On behalf of the 3.5 million United States citizens residing in Puerto Rico, I am grateful for your time and attention to this matter, which is of the utmost importance for Puerto Rico's emergence from its fiscal and economic crisis.

Respectfully submitted,



Ricardo Rosselló Nevares